

DKLS INDUSTRIES BERHAD

(Company No. 369472 – P)

(Incorporated In Malaysia)

A. Notes to the Interim Financial Report

1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with the requirements of FRS B4: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad (“BMSB”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the audited financial statements for the year ended 31 December 2007.

The interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2007. These explanatory notes attached to the interim financial report provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2007.

2. Audit Opinion

The audit report for the audited financial statement for the year ended 31 December 2007 was not subject to any qualification.

3. Seasonal or Cyclical Factors

The business operations of the Group were not affected by any significant seasonal or cyclical factors.

4. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence during the financial year to date.

5. Change in Estimates

There were no changes in estimation that have a material effect in the quarter under review.

6. Debt and Equity Securities

There were no issuance and repayment of debt and equity securities, share buy-back and share held as treasury shares during the financial year to date.

7. Dividend Paid

No dividend has been paid during the current quarter.

8. Segment Information

Segment information is presented in respect of the Group's business segment.

All inter-segment transactions have been entered into in the normal course of business and have been established under terms and conditions that are not materially different from that obtainable in transactions with unrelated parties.

Analysis by activity

	Revenue		Profit/(Loss) before tax	
	6 months ended 30 June		6 months ended 30 June	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Continuing Operations:				
Investment	5,132	237	7,896	(255)
Construction	59,829	40,924	5,523	586
Manufacturing	30,982	28,736	5,739	3,795
Property development	12,987	1,295	994	(906)
Others	13,008	20,061	(191)	432
	121,938	91,253	19,961	3,652
Inter-segment elimination	(15,670)	(8,731)	(4,895)	-
	106,268	82,522	15,065	3,652
Group's share of associates results	-	-	215	(12)
	106,268	82,522	15,281	3,640
Discontinued Operations:				
Others	-	1,426	-	181
	106,268	83,948	15,281	3,821

9. Material Subsequent Events

There were no material events subsequent to the end of the interim period that have not been reflected in the interim financial report for the current quarter.

10. Changes in Composition of the Group

There are no changes in composition of the Group for the financial year to date except for the following:-

On 20 February 2008, the Company acquired 2 ordinary shares of RM1.00 each in DKLS Oil & Gas Sdn Bhd (formerly known as DKLS Homefields Sdn Bhd) ("DOG") representing the entire issued and paid up share capital of DOG for a total cash consideration of RM2.00 and upon acquisition, DOG becomes a wholly-owned subsidiary of the Company.

On 21 March 2008, the Company entered into a Share Sale Agreement with Kar Sin Berhad to dispose off its entire 30% equity interest in D'Kiara Plance Sdn Bhd (DKP), comprising 4,230,000 ordinary shares of RM1 each, for a total consideration of RM33,895,776. The disposal was completed on 4 July 2008 and accordingly, DKP ceased to be an associate of the Company.

11. Discontinued Operations

The discontinued operations comprised the disposal of the entire 30% equity interest in D'Kiara Place Sdn Bhd.

The revenue and results of the disposal groups are as follows:-

	Current Quarter 3 months ended 30 June		Cumulative Quarter 6 months ended 30 June	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Revenue	-	774	-	1,426
Other income	-	5	-	5
Expenses	-	(686)	-	(1,250)
Profit before tax	-	93	-	181
Tax expense	-	(28)	-	(49)
Profit for the period from discontinued operations	-	65	-	132

The non-current and current assets classified as held for sale as at 30 June 2008 are as follows:

	Group	Company
	Carrying amount as at 30 June 2008	Carrying amount as at 30 June 2008
	RM'000	RM'000
Assets		
Investment in associates	15,768	15,524
Trade and other receivables	2,189	2,189
Deposit received	(3,390)	-
Non-current and current assets classified as held for sale	14,567	17,713

12. Changes in Contingent Liabilities

The guarantees given to financial institutions for facilities granted to subsidiaries decreased from RM199,782,539 as at 31 December 2007 to RM190,489,779 as at 30 June 2008.

The guarantees given to third parties for credit facilities granted to subsidiaries increased from RM17,520,000 as at 31 December 2007 to RM21,720,000 as at 30 June 2008.

The guarantees given to financial institutions for facilities granted to main contractors in connection with contracts awarded to a subsidiary company amounted to RM46,850,000 as at 30 June 2008.

13. Capital Commitments

	30 June 2008
	RM'000
Property, plant and equipment	
Approved and contracted for	4,009
Approved but not contracted for	7

14. Related Party Transactions

All related party transactions entered into in the ordinary course of business have been undertaken at arms' length basis on normal commercial terms. These transactions are within the ambit of the approval granted under the Shareholders' Mandate for recurrent related transactions obtained at a general meeting.

There were no transactions with the directors and key management personnel other than the remuneration package paid to them in accordance with the terms and conditions of their appointment.

B. Additional information required by the BMSB's Listing Requirements

1. Review of Performance

The Group recorded a pre-tax profit (excluding discontinued operations) of RM15.281 million on a revenue of RM106.268 million for the financial year to date as compared to a pre-tax profit of RM3.640 million on a revenue of RM82.522 million for the previous year corresponding period. The Group achieved a higher pre-tax profit as compared to the previous year mainly due to the reversal of foreseeable loss of RM0.8 million from project no longer required, gain on disposal of plant and machinery of RM3.4 million, profit from China operation of RM2.9 million and the recognition of profit from the newly launch development project sector of RM1 million as compared to the loss of RM0.2 million in the corresponding quarter.

2. Variance of Results Against Preceding Quarter

	^{2nd} quarter ended 30 June 2008	^{1st} quarter ended 30 March 2008	Increase/ (Decrease)
	RM'000	RM'000	RM'000
Revenue from continuing operations	69,149	37,119	32,030
Profit for the period from continuing operations	11,185	4,096	7,089

The higher profit for this quarter is mainly due to the gain on disposal of plant and machinery of RM3.4 million and profit from China operation of RM2.9 million and the higher revenue achieved from core business.

3. Current Year Prospects

The directors expect the Group's operating environment to remain challenging and competitive. Despite the current economic scenario, the directors are of the opinion that the performance of the Group's core operating businesses for the financial year 2008 will continue to be satisfactory. However, the directors expect the Group's financial results will be better than last year in view of the extraordinary gain from disposal of investment and plant and machinery.

4. Profit Forecast

Not applicable as no profit forecast was published.

5. Tax expense

	6 months ended 30 June	
	2008	2007
	RM'000	RM'000
Continued operations		
Current tax expense	3,449	194
Deferred taxation	244	40
	<u>3,693</u>	<u>234</u>
Discontinued operations		
Foreign current tax	-	21
	<u>3,693</u>	<u>255</u>

The effective tax rate was higher than the statutory tax rate principally due to the losses of certain subsidiaries which cannot be set off against taxable profits made by other subsidiaries and certain expenses which are not deductible for tax purposes.

6. Profit/(Loss) on Sale of Unquoted Investments and/or Properties

There were no sales of unquoted investments and/or properties for the financial year to date except for the following:-

On 8 May 2008 a subsidiary company, DKLS Construction Sdn Bhd completed the sale of 1 unit double storey shop office for a total consideration of RM235,000 which resulted in a loss on disposal of RM5,000. The loss has been recognized as impaired loss in previous year.

7. Particulars of Purchase or Disposal of Quoted Securities

There were no purchases or disposals of quoted securities for the financial year to date.

The investments in quoted securities were as follows:

	30 June 2008
	RM'000
Included within other investment:	
At cost	23
Less : Impairment loss	(11)
At carrying value	12
At market value	<u>8</u>

8. Status of Corporate Proposals

There were no corporate proposals announced and not completed as at the latest practicable date.

9. Borrowing and Debt Securities

	30 June 2008
	RM'000
Short term borrowings	
Bankers' acceptance (unsecured)	7,078
Bank overdraft (unsecured)	6,441
Revolving credits (unsecured)	1,800
Hire purchase creditors (current portion)	4,860
	<u>20,179</u>
Long term borrowings	
Hire purchase creditors	2,503
	<u>22,682</u>

Borrowings are denominated in Ringgit Malaysia.

10. Off Balance Sheet Financial Instruments

There were no off balance sheet financial instruments entered into by the Group as at the date of this report.

11. Changes in Material Litigation

As at the date of this report, the Group is not engaged in any material litigation which in the opinion of the Board of Directors will have a material effect on the financial position or the business of the Group.

12. Dividend

No dividend has been proposed or declared for the financial year to date.

13. Basic Earnings Per Share

Basic earnings per share

	Current quarter	Financial year to-date
	RM	RM
Net profit attributable to equity holders of the parent	8,549,061	11,613,684

Weighted average number of ordinary shares

Issued ordinary shares at beginning of the quarter	92,699,600	92,699,600
Effect of shares issued	-	-
Weighted average number of ordinary shares	<u>92,699,600</u>	<u>92,699,600</u>

Diluted earnings per share

Not applicable

14. Financial Assistance in the Ordinary Course of Business

As at the end of the reporting period, DKLS Construction Sdn Bhd, a wholly-owned subsidiary of the Company, in the ordinary course of business has caused certain financial institutions to issue Performance Bond and Advance Bond guarantees amounted to RM32.224 million on behalf of the main contractors. As at the end of the reporting period, the Company has given guarantees amounted to RM46.850 million to financial institutions for facility granted to a subsidiary company's main contractors. The financial assistance provided has no financial impact on the Company as a Group.

By Order of the Board

Cheai Weng Hoong
Company Secretary

Dated: 21 August 2008